FINANCIAL STATEMENTS

Karsch Capital II, LP
Year Ended December 31, 2010
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Karsch Capital II, LP

Financial Statements

Year Ended December 31, 2010

Contents

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Report of Independent Auditor

To the General Partner of
Karsch Capital II, LP

We have audited the accompanying statement of financial condition of Karsch Capital II, LP (the "Partnership"), including the condensed schedule of investments, as of December 31, 2010, and the related statements of operations, changes in partners' capital, and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Karsch Capital II, LP at December 31, 2010, and the results of its operations, the changes in its partners' capital and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 12, 2011

Karsch Capital II, LP

Statement of Financial Condition

December 31, 2010

Assets	
Investments in securities, at fair value (cost $461,080,103)	$ 515,690,128
Due from brokers	121,933,274
Net unrealized appreciation on derivative contracts, at fair value	591,380
Interest and dividends receivable	145,055
Other assets	5,946
Total assets	$ 638,365,783
Liabilities and partners' capital	
Securities sold, not yet purchased, at fair value (proceeds $122,889,506)	$ 129,534,589
Net unrealized depreciation on derivative contracts, at fair value	263,751
Payable to withdrawing partners	70,763,471
Interest and dividends payable	259,652
Accrued expenses	291,399
Total liabilities	201,112,862
Partners' capital	437,252,921
Total liabilities and partners' capital	$ 638,365,783

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Condensed Schedule of Investments

December 31, 2010

Description	Shares	Fair Value	Percentage of Partners' Capital
Investments in securities			
Common stock			
United States			
Healthcare		$ 89,235,356	20.41 %
Energy			
The Williams Companies, Inc.	1,516,600	37,490,352	8.57
Other		36,904,644	8.44
Total Energy		74,394,996	17.01
Internet			
priceline.com Incorporated	66,670	26,637,999	6.10
Other		37,393,476	8.55
Total Internet		64,031,475	14.65
Industrial		63,766,515	14.58
Financial		54,533,829	12.47
Consumer		20,345,827	4.65
Telecommunications		16,583,468	3.79
Retail		14,056,062	3.22
Technology		8,638,876	1.98
Total United States (cost $357,713,196)		405,586,404	92.76
Belgium			
Telecommunications (cost $876,666)		835,393	0.19
Canada			
Industrial (cost $13,798,142)		15,058,766	3.44
Cayman Islands			
Healthcare (cost $14,737)		21,331	0.01
France			
Consumer (cost $6,654,962)		7,122,254	1.63
Hong Kong			
Financial (cost $17,149,375)		17,570,699	4.02

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Condensed Schedule of Investments (continued)

December 31, 2010

Description		Fair Value	Percentage of Partners' Capital	
Investments in securities (continued)				
Common stock (continued)				
Ireland				
Healthcare (cost $2,646,893)	$	5,065,152	1.16	%
Israel				
Healthcare		11,475,377	2.62	
Technology		9,790,004	2.24	
Total Israel (cost $20,663,886)		21,265,381	4.86	
Japan				
Consumer (cost $10,616,692)		12,104,982	2.77	
Netherlands				
Industrial (cost $10,768,831)		11,342,797	2.59	
Singapore				
Consumer (cost $3,605,792)		4,789,056	1.10	
United Kingdom				
Consumer (cost $3,882,516)		3,950,755	0.90	
Total common stock (cost $448,391,688)	$	504,712,970	115.43	%
Exchange traded funds				
United States				
Financial (cost $4,166,288)	$	4,152,471	0.95	%
Call options purchased				
United States				
Energy	$	811,569	0.18	%
Industrial		177,744	0.04	
Healthcare		114,671	0.03	
Financial		46,283	0.01	
Consumer		3,094	0.00	
Total United States (premiums paid $1,432,024)		1,153,361	0.26	

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Condensed Schedule of Investments (continued)

December 31, 2010

Description		Fair Value	Percentage of Partners' Capital	
Investments in securities (continued)				
Call options purchased (continued)				
Canada				
Industrial (premiums paid $44,268)	$	83,545	0.02	%
Israel				
Healthcare (premiums paid $276,843)		242,256	0.06	
Netherlands				
Industrial		68,850	0.02	
Financial		10,050	0.00	
Total Netherlands (premiums paid $132,160)		78,900	0.02	
Total call options purchased (premiums paid $1,885,295)	$	1,558,062	0.36	%
Foreign currency call options purchased				
United States	$	2,549	0.00	%
Europe		-	0.00	
Total foreign currency call options purchased (premiums paid $463,077)	$	2,549	0.00	%
Put options purchased				
United States				
Funds/Index	$	1,641,447	0.38	%
Financial		661,435	0.15	
Internet		239,020	0.05	
Energy		8,773	0.00	
Industrial		8,377	0.00	
Technology		882	0.00	
Retail		300	0.00	
Total put options purchased (premiums paid $4,514,955)	$	2,560,234	0.58	%
Warrants				
United States				
Industrial (cost $1,658,800)	$	2,703,842	0.62	%
Warrants (cost $1,658,800)	$	2,703,842	0.62	%
Total investments in securities (cost $461,080,103)	$	515,690,128	117.94	%

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Condensed Schedule of Investments (continued)

December 31, 2010

Description		Fair Value	Percentage of Partners' Capital	
Securities sold, not yet purchased				
Common stock				
United States				
Healthcare	$	17,313,111	3.96	%
Financial		8,816,538	2.02	
Energy		1,359,174	0.31	
Industrial		1,357,960	0.31	
Technology		1,354,965	0.31	
Internet		1,298,165	0.30	
Consumer		301,693	0.07	
Retail		95,768	0.02	
Telecommunication		59,145	0.01	
Total United States (proceeds $30,305,622)		31,956,519	7.31	
Australia				
Industrial (proceeds $31,745)		38,748	0.01	
Brazil				
Industrial (proceeds $6,189,287)		6,696,900	1.53	
Canada				
Telecommunications		6,133,099	1.40	
Energy		1,252,984	0.29	
Retail		40,778	0.01	
Industrial		22,939	0.00	
Total Canada (proceeds $7,032,110)		7,449,800	1.70	
Hong Kong				
Industrial (proceeds $1,922,559)		2,696,752	0.62	
Ireland				
Telecommunication		36,333	0.01	
Technology		30,549	0.00	
Total Ireland (proceeds $58,959)		66,882	0.01	

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Condensed Schedule of Investments (continued)

December 31, 2010

Description		Fair Value	Percentage of Partners' Capital	
Securities sold, not yet purchased (continued)				
Common stock (continued)				
Japan				
Internet (proceeds $3,464,774)	$	3,783,442	0.86	%
Netherlands				
Consumer (proceeds $439,798)		506,460	0.12	
Switzerland				
Industrial (proceeds $27,240)		30,847	0.01	
Total common stock (proceeds $49,472,094)	$	53,226,350	12.17	%
Exchange-traded funds				
United States				
Funds/Index	$	45,327,048	10.37	%
Healthcare		23,043,563	5.27	
Total exchange-traded funds (proceeds $67,047,419)	$	68,370,611	15.64	%
Call options written				
United States				
Financial	$	2,925,376	0.67	%
Industrial		2,177,773	0.50	
Energy		1,690,897	0.39	
Internet		71,325	0.01	
Consumer		36,108	0.01	
Healthcare		18,145	0.00	
Total United States (premiums received $4,351,833)		6,919,624	1.58	
Canada				
Industrial (premiums received $15,575)		37,050	0.01	

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Condensed Schedule of Investments (continued)

December 31, 2010

Description		Fair Value	Percentage of Partners' Capital	
Securities sold, not yet purchased (continued)				
Call options written (continued)				
Ireland				
Healthcare (premiums received $27,118)	$	13,422	0.00	%
Netherlands				
Industrial (premiums received $74,205)		94,350	0.02	
Total call options written				
(premiums received $4,468,731)	$	7,064,446	1.61	%
Put options written				
United States				
Consumer	$	269,040	0.06	%
Energy		246,379	0.06	
Industrial		114,569	0.03	
Internet		66,045	0.01	
Financial		35,812	0.01	
Healthcare		5,800	0.00	
Funds/Index		3,182	0.00	
Total United States (premiums received $1,757,899)		740,827	0.17	
Canada				
Industrial (premiums received $51,186)		14,380	0.00	
Ireland				
Healthcare (premiums received $13,118)		9,100	0.00	
Netherlands				
Financial (premiums received $79,059)		108,875	0.03	
Total put options written				
(premiums received $1,901,262)	$	873,182	0.20	%
Total securities sold, not yet purchased				
(proceeds $122,889,506)	$	129,534,589	29.62	%

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Condensed Schedule of Investments (continued)

December 31, 2010

Description	Unrealized Appreciation/ (Depreciation)	Percentage of Partners' Capital
Net unrealized appreciation on derivative contracts		
Futures contracts - short contracts		
Europe		
Funds/Index	$ 61,755	0.02 %
Japan		
Funds/Index	17,178	0.00
Total futures contracts - short contracts	$ 78,933	0.02 %
Total return swap - short contracts		
Australia		
Financial	$ (100,442)	(0.02) %
Contracts for difference - short contracts		
United States		
Healthcare	$ 11,238	0.00 %
Funds/Index	(11,535)	(0.00)
Total United States	(297)	0.00
Australia		
Financial	(163,012)	(0.04)
Total contracts for difference - short contracts	$ (163,309)	(0.04) %
Forward foreign currency contracts		
Forward foreign currency contracts, deliver U.S. Dollars	$ 47,580	0.01 %
Forward foreign currency contracts, receive U.S. Dollars	464,867	0.10
Net unrealized appreciation on forward foreign currency contracts	$ 512,447	0.11 %
Net unrealized appreciation on derivative contracts	$ 327,629	0.07 %

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Statement of Operations

Year Ended December 31, 2010

Investment income	
Dividends (net of withholding taxes of $82,690)	$ 6,773,965
Interest	265,292
Other	58,592
Total income	7,097,849
Expenses	
Management fee	7,864,324
Dividends on securities sold, not yet purchased	4,866,235
Interest	991,989
Professional fees and other	630,793
Total expenses	14,353,341
Net investment loss	(7,255,492)
Net realized and net change in unrealized gain/(loss) on investment transactions	
Net realized gain on investments in securities	15,197,851
Net realized loss on derivative contracts	(4,105,189)
Net realized loss on foreign exchange transactions	(82,026)
Net change in unrealized appreciation on investments in securities	6,827,246
Net change in unrealized appreciation on derivative contracts	262,009
Net change in unrealized appreciation on foreign exchange transactions	732,489
Net realized and net change in unrealized gain/(loss) on investment transactions	18,832,380
Net income	$ 11,576,888

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Statement of Changes in Partners' Capital

Year Ended December 31, 2010

	General Partner	Limited Partners	Total
Partners' capital at beginning of year	$ 20,715,252	$ 613,900,165	$ 634,615,417
Capital contributions	7,000,000	104,853,116	111,853,116
Capital withdrawals	(17,838,580)	(302,953,920)	(320,792,500)
Transfer of capital *(note 4)*	(2,385,022)	2,385,022	-
Allocation of net income/(loss):			
Pro-rata allocation	(395,426)	11,972,314	11,576,888
Incentive allocation	3,409,322	(3,409,322)	-
Net income	3,013,896	8,562,992	11,576,888
Partners' capital at end of year	$ 10,505,546	$ 426,747,375	$ 437,252,921

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Statement of Cash Flows

Year Ended December 31, 2010

Cash flows from operating activities		
Net income	$	11,576,888
Adjustments to reconcile net income to net cash provided by operating activities		
Purchases of investments in securities		(3,864,867,265)
Proceeds from disposition of investments in securities		4,059,441,044
Purchases to cover securities sold, not yet purchased		(3,401,579,119)
Proceeds from securities sold, not yet purchased		3,292,339,230
Net realized gain on securities		(15,197,851)
Net unrealized appreciation on investments in securities		(6,827,246)
Net unrealized appreciation on derivative contracts		(525,760)
Net unrealized depreciation on derivative contracts		263,751
Net change in operating assets and liabilities:		
Due from brokers		136,240,730
Interest and dividends receivable		676,211
Other assets		155,279
Taxes payable		(895,045)
Interest and dividends payable		(128,331)
Accrued expenses		(220,196)
Net cash provided by operating activities		210,452,320
Cash flows from financing activities		
Proceeds from partners' capital contributions		111,853,116
Payments on partners' capital withdrawals		(322,305,436)
Net cash used in financing activities		(210,452,320)
Net change in cash		-
Cash at beginning of year		-
Cash at end of year	$	-
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$	1,006,564
Non-cash transfer from the General Partner to Limited Partners	$	2,385,022
Non-cash transfer to Limited Partners from the General Partner	$	(2,385,022)

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, LP

Notes to Financial Statements

December 31, 2010

1. Organization and Principal Activity

Karsch Capital II, LP (the "Partnership") was formed in September 2000 pursuant to the laws of the State of Delaware to invest and trade in securities. The general partner of the Partnership is Karsch Associates, LLC (the "General Partner"). The Partnership will continue until December 31, 2025 and thereafter from year to year unless dissolved, as provided in the Partnership Agreement.

The investment objective of the Partnership is to achieve capital appreciation while minimizing risk by investing (on the long and short sides) primarily in equities and equity-related securities. The primary geographic focus of the Partnership is the United States and, to a lesser extent, other developed economies, while the secondary geographic focus is in developing countries. Karsch Capital Management, LP, a Delaware limited partnership, is the investment manager (the "Investment Manager") of the Partnership. The Investment Manager is registered as an investment adviser under the U.S. Investment Advisers Act of 1940. Goldman Sachs & Co., Credit Suisse Securities (USA), LLC, and Morgan Stanley & Co. (the "Brokers") serve as the Partnership's prime brokers and custodians. Goldman Sachs Administration Services Co. (the "Administrator") serves as the Partnership's administrator.

2. Significant Accounting Policies

These financial statements are prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP").

(a) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(b) Valuation, security transactions, and investment income

Securities listed on a national securities exchange or listed on NASDAQ, excluding options, are valued at the last reported sales price on the primary exchange on which such securities have traded on the last business day of the year. Investments in securities traded in the over-the-counter market are recorded at the last reported "bid" price if held long, and last reported "ask" price if sold short. Options listed on a national securities exchange, on NASDAQ, and over-the-counter are recorded at the mean between their "bid" and "ask" prices.

2. Significant Accounting Policies (continued)

(b) Valuation, security transactions, and investment income (continued)

Forward foreign currency contracts, futures contracts, contracts for difference, and equity swaps are valued at the difference between the contract price and the market value at the date of the statement of financial condition. Market values for forward foreign currency contracts and futures contracts are based on published quotations on forward foreign currency rates and futures contracts, respectively, offered for the equivalent period to maturity from the date of valuation. Generally, the key inputs for most forward contracts include notional, maturity, forward rate, spot rate, various interest rate curves and discount factor. Market values for contracts for difference and equity swaps are generally based on the last available trade price on the principal market on which the underlying security is traded. Generally, the key inputs for most swap contracts include notional, swap period, fixed rate, credit or interest rate curves, current market or spot price of the underlying and the volatility of the underlying. Generally, the key inputs for most over-the-counter option contracts include notional, strike price, maturity, payout structure, current foreign exchange forward and spot rates, current market price of underlying and volatility of underlying. Investments other than those discussed above are valued at fair value as determined by the General Partner. As of December 31, 2010, investments of $36,000 were fair valued by the General Partner.

Under U.S. GAAP, fair value is defined as the price that the Partnership would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the Partnership's assets and liabilities, which qualify as financial instruments, approximates the carrying amounts presented in the statement of financial condition. The Partnership categorizes its fair value measurements according to a three-level hierarchy based upon the transparency of the inputs to the valuation of an asset or a liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Partnership. Unobservable inputs reflect the Partnership's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Each investment is assigned a level based upon the lowest level of observability of the inputs which are significant to the overall valuation. These inputs are summarized in the three broad levels listed below.

2. Significant Accounting Policies (continued)

(b) Valuation, security transactions, and investment income (continued)

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly-traded equity securities and exchange-traded options. As required by U.S. GAAP, the Partnership does not adjust the quoted price for these investments even in situations, if any, where the Partnership holds a large position and a sale could reasonably impact the quoted price.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and are determined through the use of models or other valuation methodologies. Such investments include certain over-the-counter derivative contracts.

Level III - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value for these investments is determined using valuation methodologies which include market and income approaches that consider a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments in this category include privately-held equity securities and certain over-the-counter options. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Investment Manager's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

2. Significant Accounting Policies (continued)

(b) Valuation, security transactions, and investment income (continued)

The following table summarizes the valuation of the Partnership's investments by the above fair value hierarchy levels as of December 31, 2010:

	Total	Level I	Level II	Level III
Assets				
Common stock	$504,712,970	$500,396,120	$ 4,280,850	$ 36,000*
Exchange-traded funds	4,152,471	4,152,471	-	-
Call options purchased	1,560,611	1,558,062	-	2,549*
Put options purchased	2,560,234	2,560,234	-	-
Warrants	2,703,842	2,703,842	-	-
Net unrealized appreciation on futures contracts	78,933	78,933	-	-
Net unrealized appreciation on forward foreign currency contracts	512,447	-	512,447	-
Total	$516,281,508	$511,449,662	$ 4,793,297	$ 38,549
Liabilities				
Common stock	$53,226,350	$53,226,350	$ -	$ -
Exchange-traded funds	68,370,611	68,370,611	-	-
Call options written	7,064,446	7,064,446	-	-
Put options written	873,182	873,182	-	-
Net unrealized depreciation on total return swaps	100,442	-	100,442	-
Net unrealized depreciation on contracts for difference	163,309	-	163,309	-
Total	$129,798,340	$129,534,589	$ 263,751	$ -

** Included in investments in securities on the condensed schedule of investments.*

The General Partner periodically reviews the level assigned to each investment and makes adjustments when necessary. When assets and liabilities are transferred into Level 3 during the year, gains/(losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the year; similarly, for assets and liabilities that were transferred out of Level 3 during the year, gains/(losses) are presented as if the assets or liabilities had been transferred out at the beginning of the year. There were no transfers between levels during the year-ended December 31, 2010.

2. Significant Accounting Policies (continued)

(b) Valuation, security transactions, and investment income (continued)

The investments in securities and securities sold, not yet purchased have been disclosed by security classification, geographic location and industry on the condensed schedule of investments.

The changes in the investments classified as Level III are as follows:

	Total	Common stock	Call options purchased	Put options written
Balance at January 1, 2010	$ 2,976,132	$ 2,251,643	$ 929,762	$ (205,273)
Purchases	53,418	-	-	53,418
Sales	(3,228,947)	(3,228,947)	-	-
Net realized gain/(loss)*	(279,554)	-	(517,040)	237,486
Net change in unrealized appreciation/ (depreciation)*	517,500	1,013,304	(410,173)	(85,631)
Balance at December 31, 2010	$ 38,549	$ 36,000	$ 2,549	$ -
Changes in net unrealized appreciation /(depreciation) relating to investments still held at December 31, 2010	$ (460,528)	$ -	$ (460,528)	$ -

** Net realized gain/(loss) and net change in unrealized appreciation/(depreciation), if any, recorded on Level III financial instruments are included in net realized and net change in unrealized gain/(loss) on investment transactions in the statement of operations, respectively.*

Realized gains and losses on security transactions are recorded using the specific-identification method and are reflected in the statement of operations. Investment transactions are accounted for on a trade date basis. Dividend income and expense are recorded on the ex-dividend date net of any applicable withholding taxes. Interest income and expense are recorded on the accrual basis.

2. Significant Accounting Policies (continued)

(c) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange with the resulting gains and losses reflected in net realized and net change in unrealized gain/(loss) on foreign exchange transactions on the statement of operations. Purchases and sales of investments and income and expense items denominated in foreign currencies are translated on the respective dates of such transactions. The Partnership does not generally isolate that portion of the results of operations arising as a result of changes in the foreign currency exchange rates from the fluctuations arising from changes in the market prices of securities.

(d) Taxation

No provision is made in the accompanying financial statements for federal, state, and local income taxes, as such liabilities are the responsibility of the individual partners.

Under U.S. GAAP, the Partnership is subject to the provisions of Accounting for Uncertainty in Income Taxes. This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. De-recognition of a tax benefit previously recognized could result in the Partnership recording a tax liability that would reduce partners' capital. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.

Management has analyzed the Partnership's tax positions taken on Federal, State, and Local income tax returns from 2000 to 2010, and has concluded that no provision for income tax is required in the Partnership's financial statements. However, the General Partner's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Partnership recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the statement of operations.

2. Significant Accounting Policies (continued)

(e) Condensed schedule of investments

The industry classifications and geographic locations included in the condensed schedule of investments represent the General Partner's belief as to the most meaningful presentation of the classification of the Partnership's investments.

(f) Securities lending

The Partnership receives compensation in the form of fees and continues to receive dividends on securities loaned. The loans are secured by collateral in the form of U.S. Treasury securities at least equal, at all times, to the daily value of the securities loaned plus accrued interest. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Partnership. The Partnership has the right under the lending agreement to recover the securities from the borrower on demand. As of December 31, 2010, there were no securities loaned.

(g) Foreign securities

The Partnership invests in the securities of foreign companies which involve special risks and considerations not typically associated with investing in U.S. companies. These risks include devaluation of currency, less reliable information about issuers, different securities transaction clearance and settlement practices and future adverse political and economic developments. Moreover, securities of foreign corporations and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. companies.

3. Due from Brokers

Due from brokers includes cash balances with the Partnership's clearing brokers and net amounts receivable for securities transactions that have not settled at December 31, 2010. The clearing and depository operations for the Partnership's security transactions are provided by the Brokers. The Brokers serve as the Partnership's primary brokers, in which capacity they are custodians of substantially all of the Partnership's securities positions and cash.

The cash at Brokers is primarily related to proceeds from securities sold, but not yet purchased. Cash at the clearing brokers that is related to securities sold, not yet purchased may be restricted until the securities are purchased.

4. Related Party Transactions

The Investment Manager provides administrative services to the Partnership. In consideration, the Investment Manager receives a management fee at a rate of 0.375% (1.50% per annum) of the limited partners' capital balance at the beginning of each calendar quarter. Capital contributed by limited partners prior to March 1, 2004 are charged 0.25% per quarter (1.00% per annum). For the year ended December 31, 2010, management fees totaled $7,864,324. The management fee may be waived or reduced by the General Partner with respect to any Limited Partner (including with respect to the employees of the General Partner, as appropriate) for any period that the General Partner determines is appropriate.

All net profits and net losses of the Partnership (including realized and unrealized gains and losses) will generally be allocated to the investors admitted to the Partnership as limited partners (each, a "Limited Partner") and the General Partner (together with the "Limited Partners," the "Partners") in accordance with the ratio of their capital account balances (other than with respect to new issue profits and losses and the incentive allocation, if appropriate). Unless an exemption is available, Limited Partners who are restricted persons (within the meaning of the Financial Industry Regulatory Authority Rule 5130) will not participate in any new issue investment made by the Partnership. For the year ended December 31, 2010, new issue income totaled $908,629.

With the consent of the General Partner, additional Limited Partners may be admitted to the Partnership on the first business day of any calendar quarter or on any other date selected by the General Partner. A Limited Partner may, upon at least 30 calendar day's prior written notice, withdraw all or any part of the capital in its capital account on the last business day of each calendar quarter. Any Limited Partner who withdraws capital prior to the first anniversary of the investment of such capital in the Partnership may, in the discretion of the General Partner, be assessed a withdrawal fee of up to 3% on such withdrawn amount payable to the Partnership. For the year ended December 31, 2010, withdrawal fees totaled $380,371 and were netted with capital withdrawals in the statement of changes in partners' capital.

The Partnership Agreement provides for the reallocation to the General Partner at the end of the year of 20% of the net income that is allocable to the capital accounts of the Limited Partners. No deduction with respect to the General Partner's percentage of any net profits will be made from the capital account of a particular Limited Partner with respect to a fiscal year until any net losses previously allocated to the capital account of such Limited Partner have been offset by subsequent net profits allocated to the capital account of such Limited Partner. For the year ended December 31, 2010, the General Partner received an incentive allocation of $3,409,322. The incentive allocation may be waived or reduced by the General Partner with respect to any Limited Partner for any period in the General Partner's sole and absolute discretion, including with respect to the Limited Partners who are employees of the General Partner.

4. Related Party Transactions (continued)

For the year ended December 31, 2010, the General Partner transferred $2,385,022 to Limited Partners.

In November 2007, the Investment Manager entered into a sub-advisory agreement with Emerson Capital, LP (the "Sub-Advisor") to manage a portion of the portfolio of the Partnership. As of December 31, 2010, the Sub-Advisor managed less than 0.3% of the net assets of the Partnership. Securities and cash are held in a separately managed account solely in the name of the Partnership and are fully consolidated into the Partnership's financial statements. All management fees and incentive fees due to the Sub-Advisor through this arrangement are not paid by the Partnership, but rather are fully paid by the Investment Manager. The Investment Manager paid $150,916 in management fees and incentive fees to the Sub-Advisor for the year ended December 31, 2010.

5. Administration

The Partnership has entered into an agreement with the Administrator, to carry out the day-to-day activities such as fund accounting and general administrative tasks for the Partnership. The Administrator has sole responsibility for the administration of the Partnership's affairs, except with respect to investment management and related responsibilities. For its services, the Administrator receives a monthly fee based upon a negotiated fee schedule.

6. Derivative contracts

In the normal course of business, the Partnership enters into derivative contracts for trading purposes and which generally include forward foreign currency contracts, futures contracts, contracts for difference, swaps and options. These derivative contracts are valued at fair value determined by using quoted market prices with the resulting gains and losses reflected in the statement of operations. The Partnership's derivative activities and exposure to derivative contracts are classified by underlying risk. In addition to primary underlying risks, the Partnership is also subject to additional counterparty risk due to the inability of its counterparties to meet the terms of their contracts. The Partnership manages these risks on an aggregate basis along with the risks associated with its investing as part of its overall management policies. The Partnership considers the creditworthiness of each counterparty to a derivative contract in evaluating potential credit risk.

6. Derivative contracts (continued)

Forward foreign currency contracts

The Partnership enters into forward foreign currency contracts primarily to manage the exchange rate risk on its foreign currency denominated assets and liabilities. Forward foreign currency contracts are agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward foreign currency contracts include the inability of counterparties to meet the terms of their respective contracts and movements in exchange rates.

Futures

The Partnership may use futures contracts to gain exposure to, or hedge against, changes in the value of equities. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

The purchase and sale of futures contracts requires margin deposits with a futures commission merchant. Subsequent payments are made or received by the Partnership each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gains or losses by the Partnership. Futures contracts provide reduced counterparty risk to the Partnership since futures are exchange-traded; and the exchange's clearinghouse, as the counterparty to all exchanged-traded futures, guarantees the futures against default.

Contracts for difference

As part of its trading strategy, the Partnership enters into contracts for difference. The contracts involve commitments to pay interest in exchange for a market-linked return based on a notional amount of one or more underlying referenced equities. To the extent that the total return of the underlying referenced equities exceeds or falls short of the offsetting interest amount, the Partnership will receive a payment from, or make a payment to, the counterparty respectively. Therefore, amounts required for the future satisfaction of the contracts for difference may be greater or less than the amount recorded.

6. Derivative contracts (continued)

Swaps

The Partnership enters into swaps to manage its exposure to the market or certain sectors of the market, or to create exposure to certain equities to which it is otherwise not exposed. Generally, a swap contract is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified notional amount of the underlying assets. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

During the term of the swaps, changes in value are recognized as unrealized gains or losses by marking the contracts to fair value. Additionally, the Partnership records a realized gain (loss) when a swap contract is terminated and when periodic payments are received or made at the end of each measurement period, but prior to termination. Unrealized gains (losses) and realized gains (losses) on swap contracts are reflected in the statement of operations. Risks may arise as a result of the failure of the counterparty to comply with the terms of the swap contract. The loss incurred by the failure of a swap counterparty is generally limited to the aggregate fair value of the swap contracts in an unrealized gain position as well as any collateral posted with the counterparty. The Partnership's credit risk relates to the potential inability of counterparties to perform their obligations under the terms of a contract. The Partnership's exposure to credit risk associated with counterparty non-performance is generally limited to the fair value of OTC derivative contracts reported as assets plus any collateral posted. The Partnership views its credit exposure to be $512,447 at December 31, 2010, representing the fair value of OTC derivative contracts in an unrealized gain position. The counterparties do not post collateral with the Partnership to mitigate exposure to these contracts, as posting requirements are currently effective unilaterally.

Options

Typically, option contracts serve as components of the investment strategies of the Partnership and are utilized primarily to structure and hedge for changes in the value of securities. Option contracts give the Partnership the right, but not the obligation, to buy or sell within a limited time, a financial instrument at a contracted price that may also be settled in cash, based on differentials between specified indices or prices. Options written obligate the Partnership to buy or sell within a limited time, a financial instrument at a contracted price that may also be settled in cash, based on differentials between specified indices or prices. Options written by the Partnership may expose the Partnership to the market risk of an unfavorable change in the financial instrument underlying the written option.

6. Derivative contracts (continued)

Options (continued)

The maximum payout for written put options is limited to the number of contracts written and the related strike prices. At December 31, 2010, the portfolio had a maximum payout amount of approximately $29,316,750 relating to written put option contracts with terms ranging from 1 to 9 months. The maximum payout amount could be offset by the subsequent sale, if any, of assets obtained via the settlement of a payout event. The fair value of these written put options as of December 31, 2010 is $873,182 and is included in investments in securities sold, not yet purchased in the statement of financial condition.

The following table identifies the fair value amounts of derivative contracts in the statement of financial condition, categorized by primary underlying risk, at December 31, 2010. Balances are presented on a gross basis, prior to the application of the impact of counterparty or collateral netting. The following table also presents the gross contractual amount for each type of derivative contract at December 31, 2010 which the General Partner believes is reflective of the level of derivative activity for the year then ended.

6. Derivative contracts (continued)

	Statement of Financial Condition				Statement of Operations	
	Assets		Liabilities			
Primary underlying risk	Net unrealized appreciation on derivative contracts	Notional Amounts*	Net unrealized depreciation on derivative contracts	Notional Amounts	Realized Gains/ (Losses)	Unrealized Gains/ (Losses)
Foreign currency exchange rate						
Forward foreign currency contracts	$ 2,631,575	$ 6,947,496	$ 2,119,128	$ 39,526,729	$ 1,306,567	$ 519,391
Equity price						
Contracts for difference	17,474	9,491,926	180,783	25,695,763	(4,598,776)	(142,696)
Total return swap	-	-	100,442	1,800,486	(543,261)	(321,195)
Futures contracts	78,933	5,139,669	-	-	(269,719)	206,509
Total gross	2,727,982	21,579,091	2,400,353	67,022,978	(4,105,189)	262,009
Effects of netting agreements	(2,136,602)	-	(2,136,602)	-	-	-
Total net	591,380 [1]	21,579,091	263,751 [3]	67,022,978	(4,105,189) [5]	262,009 [7]
Foreign currency exchange rate						
Option contracts	2,549 [2]	420,815	-	-	-	(468,287) [8]
Equity price						
Option contracts	4,118,296 [2]	336,548,750	7,937,628 [4]	145,235,250	(5,260,543) [6]	(1,419,298) [8]
Warrants	2,703,842 [2]	3,058,798	-	-	250,356 [6]	2,772,420 [8]
Total	$ 7,416,067	$ 361,607,454	$ 8,201,379	$ 212,258,228	$ (9,115,376)	$ 1,146,844

[1] *Included in net unrealized appreciation on derivative contracts, at fair value on the statement of financial condition*
[2] *Included in investments in securities, at fair value on the statement of financial condition*
[3] *Included in net unrealized depreciation on derivative contracts, at fair value on the statement of financial condition*
[4] *Included in securities sold, not yet purchased, at fair value on the statement of financial condition*
[5] *Included in net realized loss on derivative contracts on the statement of operations*
[6] *Included in net realized gain on investment on the statement of operations*
[7] *Included in net change in unrealized appreciation on derivative contracts on the statement of operations*
[8] *Included in net change in unrealized appreciation on investments in securities on the statement of operations*
* *The notional amounts approximate the trading volume during the year.*

6. Derivative contracts (continued)

The Partnership's derivative contracts are subject to the International Swaps and Derivative Association ("ISDA") Master Agreement which contain certain provisions that may require the Partnership to maintain a predetermined level of net assets and/or provide limits regarding a decline of the Partnership's net asset value ("NAV") over 1-month, 3-month, and 12-month periods. If the Partnership was to violate such provisions, the counterparties to the derivative instruments could request termination of such derivative instruments which could result in requests for immediate payment. As of December 31, 2010, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position at December 31, 2010 is $263,751 for which the Partnership has posted cash collateral of approximately $7,664,000 in the normal course of business. If the credit-risk-related contingent features underlying these derivative instruments had been triggered as of December 31, 2010, the counterparties may immediately terminate these derivative instruments and require the Partnership to pay the total amount of net liability recorded at December 31, 2010 upon demand. However, the ultimate amounts that may have been required to satisfy the triggering of such credit contingency features at December 31, 2010 could be different than the net liability amounts recorded at December 31, 2010 and such differences could be material. For the year ended, December 31, 2010 no derivative agreements or derivative instruments were terminated as a result of non-compliance with ISDA provisions, including the violation of NAV triggers.

7. Financial Instruments with Off-Balance-Sheet Risk or Concentrations of Credit Risk

The Partnership's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The financial instruments expose the Partnership in varying degrees to elements of credit, market, and currency risk.

As part of its investment strategy, the Partnership engages in short sale transactions. A short sale is a transaction in which the Partnership sells a security it does not own. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular security sold short, which could result in the inability to cover the short position and theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

In writing an option, the Partnership bears the market risk of an unfavorable change in the financial instrument underlying the written option. The exercise of an option written by the Partnership could result in the Partnership buying or selling a financial instrument at a price higher or lower than the current market value, respectively. Realized and net change in unrealized gains and losses related to written options are included in the statement of operations.

7. Financial Instruments with Off Balance-Sheet Risk or Concentrations of Credit Risk (continued)

The Partnership's risk of loss on forward foreign currency contracts, futures contracts, contracts for difference, options, and equity swaps is theoretically not represented by the amounts reported in the statement of financial condition but rather by the notional amounts of the contracts should the currency being received or the underlying security be deemed worthless. The notional amounts are disclosed in Note 6.

The Partnership uses options, forward foreign currency contracts, futures contracts, contracts for difference, warrants, and swaps for trading purposes and for managing the market risk associated with the portfolio of securities and securities sold, not yet purchased. The use of these contracts exposes the Partnership to market risks equivalent to actually holding securities of the underlying instrument. Entering into contracts for differences involves the risk of dealing with counterparties and their ability to meet the terms of the contracts. The Partnership's credit risk relates to the potential inability of counterparties to perform their obligations under the terms of a contract.

The Partnership reduces its credit risk with counterparties by entering into master netting agreements with its counterparties. Therefore, assets represent the Partnership's unrealized appreciation less unrealized depreciation for derivative contracts in which the Partnership has a master netting agreement. Similarly, liabilities represent the Partnership's unrealized depreciation less unrealized appreciation for derivative contracts in which the Partnership has a master netting agreement.

The Partnership's exposure to credit risk associated with counterparty non-performance is generally limited to the fair value of over-the-counter derivatives reported as assets as well as any collateral posted. Exchange-traded contracts generally do not give rise to significant counterparty exposure because of margin requirements of the individual exchange and the clearing house.

8. Indemnification

The Partnership enters into contracts that contain a variety of indemnifications. The Partnership's maximum exposure under these agreements is unknown. However, the Partnership has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

9. Recently Issued Accounting Pronouncements

On January 21, 2010, the Financial Accounting Standards Board ("FASB") issued the ASU 2010-06, "*Improving Disclosures about Fair Value Measurement,*" an amendment to Subtopic 820-10 which requires the following disclosures about fair value investments: 1) a reporting entity should disclose the amounts of significant transfers in and/or out of Level I and Level II fair value measurements and the reasons for the transfers; 2) the reasons for any transfers in and out of Level III; and 3) information in the reconciliation of recurring Level III measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, the ASU also amends ASC 820 to clarify that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities. Prior to the issuance of ASU 2010-06, the guidance in ASC 820 required separate fair value disclosures for each major category of assets and liabilities. ASU 2010-06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level II and Level III fair value measurements. Except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level III measurements on a gross basis, which are effective for annual reporting periods beginning after December 15, 2010, all the amendments to ASC 820 made by ASU 2010-06 are effective for annual reporting periods beginning after December 15, 2009. The Partnership adopted the standard effective January 1, 2010, which did not have a material impact on the Partnership's financial statements.

10. Financial Highlights

The information presented below represents the financial highlights applicable to the Limited Partner class of the Partnership taken as a whole (i.e. the non-managing Partners). An individual investor's return may vary from these returns based on participation in new issues, different management fee and incentive allocation arrangements, and the timing of capital contributions and withdrawals.

Operating performance	
Total return before incentive allocation	3.49%
Incentive allocation	(0.72)
Total return after incentive allocation	2.77%
Supplemental data	
Ratios to average limited partners' capital:	
Total expenses	2.59%
Incentive allocation	0.62
Total expenses and incentive allocation	3.21%
Net investment loss	(1.32%)

11. Subsequent Events

Subsequent to December 31, 2010, the Partnership received contributions of $9,600,000 from Limited Partners. Based on capital withdrawal requests received from Limited Partners, the Partnership estimates withdrawals of approximately $9,000,000.

Subsequent events were evaluated by the Partnership's management through April 12, 2011, which is the date the financial statements were available to be issued.

In January 2011, the Investment Manager ended its sub-advisory agreement with Emerson Capital, LP.